

HOUSE BILL REPORT

HB 1370

As Reported By House Committee On:
Financial Institutions & Insurance

Title: An act relating to the capital and surplus requirements of insurance companies.

Brief Description: Regulating the capital and surplus requirements of insurance companies.

Sponsors: Representatives L. Thomas, Jacobsen and Dyer; by request of Insurance Commissioner.

Brief History:

Committee Activity:

Financial Institutions & Insurance: 1/30/95, 2/1/95 [DP].

HOUSE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE

Majority Report: Do pass. Signed by 13 members: Representatives L. Thomas, Chairman; Beeksma, Vice Chairman; Smith, Vice Chairman; Wolfe, Ranking Minority Member; Campbell, Assistant Ranking Minority Member; Benton; Costa; Dellwo; Dyer; Huff; Kessler; Mielke and Pelesky.

Staff: Charlie Gavigan (786-7340).

Background: The Office of Insurance Commissioner (OIC) oversees the corporate and financial activities of insurance companies. All companies authorized to conduct insurance operations in Washington must meet statutory requirements for capital, surplus capital, reserves, investments, and other financial and operational considerations.

The National Association of Insurance Commissioners (NAIC) is an association of state insurance agencies that attempts to coordinate the regulation of insurance. Insurance is regulated by the states rather than the federal government. One approach the NAIC uses to coordinate state regulation of insurance is to develop model laws.

For life and disability insurance companies, the insurance commissioner is authorized to increase the capital and surplus requirements above those in statute when consistent with methods or requirements adopted by the National Association of Insurance

Commissioners (NAIC), or based on risk-based capital principles of the NAIC. The commissioner has, by rule, adopted a risk-based capital program for life and disability insurance companies.

Summary of Bill: A risk-based capital (RBC) program for life, disability, and property and casualty insurance companies is established. The RBC program is based on a National Association of Insurance Commissioners (NAIC) model.

Every domestic insurance company annually must file a RBC report. This report must be filed with the Washington Insurance Commissioner, the NAIC, and with the insurance agency of any state where the insurance company is authorized to do business. The report provides RBC rating levels based on a formula and factors developed by the NAIC. The insurance commissioner can adjust the RBC report if the commissioner believes the report is inaccurate. The insurance commissioner can request that a foreign or alien insurer file a RBC report with the commissioner.

If an insurance company's level of capital is less than certain RBC standards based on NAIC formulas, the company must submit a RBC plan to the insurance commissioner that describes the problems and contains proposals to resolve them. Other corrective action may be required, depending on the severity of the capital deficiency based on RBC standards.

Most documents related to the RBC program are confidential.

Appropriation: None.

Fiscal Note: Requested on January 26, 1995.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Testimony For: This bill is necessary to improve the regulation of insurance company solvency. It is important to adopt the bill to be consistent with the NAIC accreditation process and to promote uniformity in insurance regulations.

Testimony Against: None.

Testified: John Woodall, Office of the Insurance Commissioner (pro); Mel Sorensen, National Association of Independent Insurers (pro); and Basil Badley, American Insurance Association and American Council of Life Insurance (pro).